



Northumberland

County Council

AUDIT COMMITTEE

23 March 2022

Changes to the Code of Practice for Local Authority Accounting in the UK for 2021-22

Report of Jan Willis, Interim Executive Director of Finance and Section 151 Officer

Cabinet Member: Councillor Richard Wearmouth – Deputy Leader and Portfolio Holder for Corporate Services

1. Purpose of the Report

1.1. The purpose of this report is to provide the Audit Committee with a summary of the key accounting changes in the latest edition of the Code of Practice for Local Authority Accounting in the UK (the Code) which will apply to the 2021-22 Statement of Accounts.

2. Recommendations

2.1. It is recommended that the Members of the Audit Committee:

- a. note the changes detailed in the report and in Appendix A which will be taken into account in the preparation of the 2021-22 statement of accounts.

3. Key Issues

3.1. In preparing the annual Statement of Accounts we closely follow CIPFA's Code of Practice for Local Authority Accounting in the UK, which is based on approved accounting standards.

3.2. The 2021-22 Statement of Accounts will be prepared in accordance with the CIPFA Code 2021-22.

3.3. On 3 February 2022, CIPFA/LASAAC issued an exceptional consultation on time limited changes to the 2021-22 and 2022-23 Codes to help alleviate delays to the publication of audited financial statements in England, where only 9% of local authority accounts met the audit publication deadline of 30 September 2021. This includes an adaptation to allow local authorities to pause professional valuations for operational property, plant and equipment for a period of up to two years.

- 3.4. At this stage, it appears unlikely that the proposals will have a significant impact on the preparation on the 2021-22 accounts.
- 3.5. The consultation closed on 3 March 2022. Until the outcome is known, we will continue to prepare for the accounts on the basis of the 2021-22 Code as it currently stands.
- 3.6. The key accounting changes to the Code from 2020-21 to 2021-22 are outlined in Appendix A, detailing their relevance and applicability to the Council.

4. **Background**

- 4.1. In preparing the annual Statement of Accounts we closely follow CIPFA's Code of Practice for Local Authority Accounting in the UK (the Code), which is based upon approved accounting standards.
- 4.2. The Code is based on International Financial Reporting Standards (IFRS) and has been developed by the joint CIPFA/Local Authority (Scotland) Accounts Advisory Committee (LASAAC) Code Board overseen by the Financial Reporting Advisory Board. It is based on approved accounting standards issued by the International Financial Reporting Interpretations Committee, except where these are inconsistent with specific statutory requirements.
- 4.3. The Code also draws on approved accounting standards issued by the International Public Sector Accounting Standards Board and the UK Financial Reporting Council where these provide additional guidance. The latest edition of the Code applies to accounting periods commencing on or after 1 April 2021. It supersedes the 2020-21 Code.
- 4.4. In England and Wales, the Code constitutes a 'proper accounting practice' under the terms of section 21(2) of the Local Government Act 2003.
- 4.5. In December 2021, proposed measures were announced by Government to support the timely completion of local government audits and the ongoing stability of the local audit market. The proposals include:
 - a. extending the published/audited deadline to 30 November 2022 for the 2021-22 accounts, then reverting to 30 September for five years until 2027-28.
 - b. providing councils with £45 million additional funding over the course of the next Spending Review period to support with the costs of strengthening their financial reporting and increased auditing requirements.
 - c. strengthening training and qualifications options for local auditors and audit committee members.
 - d. reviewing whether certain accounting and audit requirements could be reduced on a temporary basis, where these are of lesser risks to councils.

- 4.6. The CIPFA/LASAAC Code Board, overseen by the Financial Reporting Advisory Board, is in a position to issue mid-year updates to the Code in exceptional circumstances. On 3 February 2022, in response to the proposed measures announced by Government in December 2021, the Code Board issued an exceptional consultation on time limited changes to the 2021-22 and 2022-23 Codes to help alleviate delays to the publication of audited financial statements.
- 4.7. The consultation runs until 3 March 2022 and explores the following temporary changes:
- a. an adaptation to the Code to allow local authorities to pause professional valuations for operational property, plant and equipment for a period of up to two years (though the initial proposal is for the 2021-22 financial year) with an index approach used to increase or decrease the valuations.
 - b. deferring the implementation of IFRS 16 (leases) for a further year and reversing the planned changes to the 2022-23 Code to implement that standard.

5. **Main implications**

- 5.1. The Council's 2021-22 valuation programme is already well underway; therefore, the changes being explored as part of the CIPFA/LASAAC consultation are unlikely to have a significant effect on the workload for the 2021-22 Statement of Accounts and may be of more benefit to the 2022-23 workload. Although work on IFRS 16 (leases) is also fairly advanced deferring for an extra year will be of benefit. Even if this standard is delayed all work undertaken to date would have been necessary.
- 5.2. Until the outcome of the consultation is known, we will continue to prepare for the accounts on the basis of the 2021-22 Code as it currently stands.
- 5.3. Appendix A provides a summary of the key accounting changes to the Code and their relevance to the Council in preparing its Statement of Accounts for the year ended 31 March 2022.

IMPLICATIONS ARISING OUT OF THE REPORT

Policy:	None.
Finance and value for money:	The report considers the changes to the Code of Practice for Local Authority Accounting in the UK for the County Council's Statement of Accounts 2021-22.
Human Resources:	None.
Legal:	It is a requirement of the Local Government Act 2003 and the Accounts and Audit (England) Regulations 2015 for the Statement of Accounts to be produced in accordance with proper accounting practices.
Procurement:	None.
Property:	None.
Equalities:	None.
Risk Assessment:	The risks within the preparation of the Statement of Accounts are well managed through the embedded processes in place.
Crime & Disorder:	None.
Customer Considerations:	None.
Carbon Reduction:	None.
Consultation:	Portfolio Holder for Corporate Services.
Health & Wellbeing:	The Council's budget is founded on the principle of promoting inclusivity.
Wards:	All.

Background Papers:

Northumberland County Council Draft Statement of Accounts 2020-21

Report sign off

Authors must ensure that officers and members have agreed the content of the report:

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Interim Monitoring Officer/Legal	Suki Binjal
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Changes to the Code of Practice for Local Authority Accounting in the UK for 2021-22

The table below provides a summary of the key accounting changes in the 2021-22 CIPFA Code and their applicability to Northumberland County Council. Note, this does not contain the emergency proposals that are still subject to consultation at the time of this report.

	Change	Relevant to Northumberland County Council?
1	Confirmation that the code will be based on UK endorsed accounting standards following the United Kingdom's withdrawal from the European Union.	Yes
2	Confirmation of the accounting arrangements for the Dedicated Schools Grant as a consequence of the issue of the Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2020. This was legislation that came into force in 2020-21, but after the 2020-21 Code was issued.	Yes
3	Confirmation in Section 3.3 (Accounting Policies, Changes in Accounting Estimates and Errors) of the treatment of new standards that have been issued but not yet adopted.	Yes
4	Confirmation of the new standards introduced in the 2021-22 Code, and of the transitional reporting requirements for them: <ul style="list-style-type: none"> • Definition of a Business: Amendments to IFRS 3 • Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7) • Interest Rate Benchmark Reform – Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16) 	Yes
5	Augmentations to Section 3.4 (Presentation of Financial Statements) for the reporting of estimation uncertainty: <ul style="list-style-type: none"> • focus on estimates where there is the greatest potential for material adjustments • disclosures to help the understanding of users of the accounts 	Yes

	Change	Relevant to Northumberland County Council?
6	Confirmation in Sections 7.2 (Subsequent Measurement of Financial Assets and Financial Liabilities) and 7.3 (Financial Instruments – Disclosure and Presentation Requirements) of the reporting requirements of interest rate benchmark reform – that is, the change from the London Inter-Bank Offered Rate (LIBOR) to the Sterling Overnight Index Average (SONIA).	Yes